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DDI/SOVA/TWA/PP: [REDACTED] (18 Sep 85)

SUBJECT: LDC Applications for CEMA Membership:
Why the RejectionsInternal Distribution

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SUBJECT: LDC Applications for CEMA Membership:
Why the Rejections?

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Why the Rejections?

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SUBJECT: LDC Applications for CEMA Membership:
Why the Rejections

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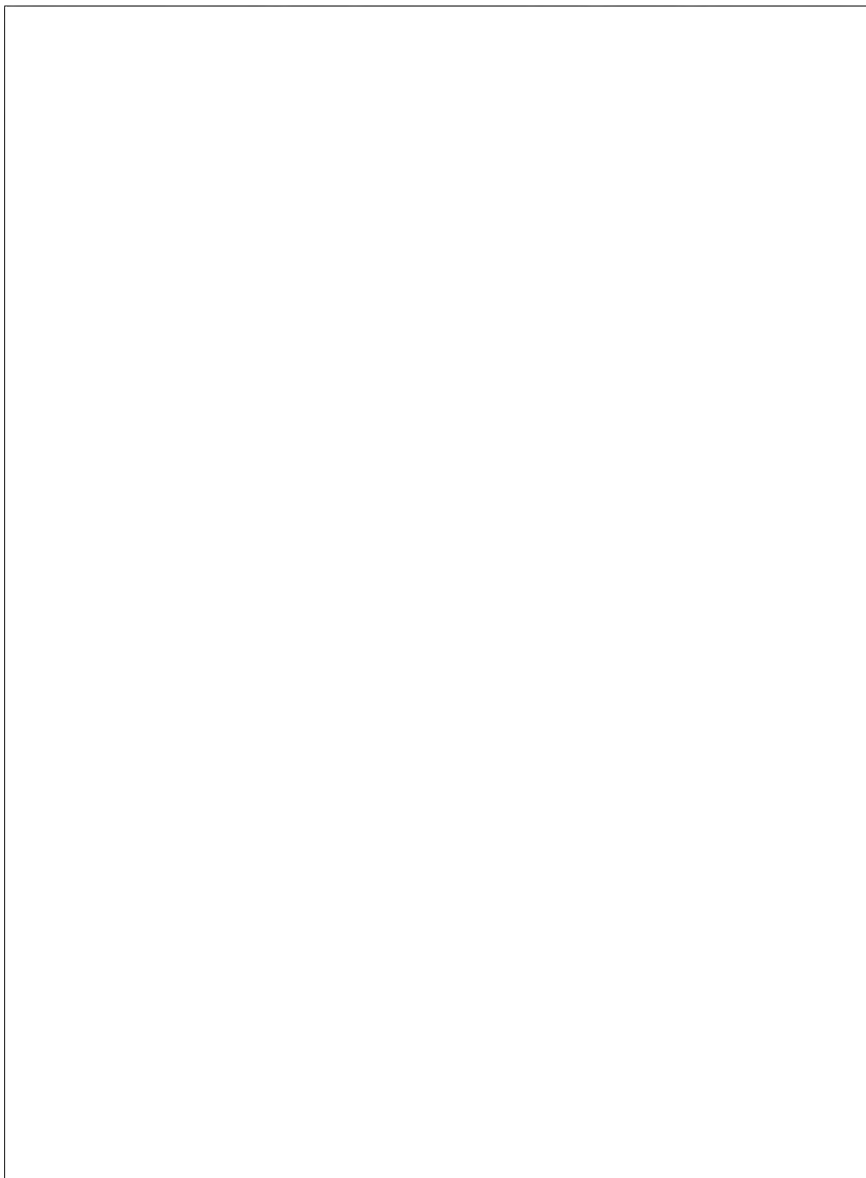
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ISA/Office of Inter-American Affairs
Room 4C800, The Pentagon
- 69 - CDR. Gary W. Gottschalk
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- 72 - William A. George
Economic Policy
ISP/Office of International Economics,
Trade, and Security Policy
IDA Building

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SUBJECT: LDC Applications for CEMA Membership:
Why the Rejections?



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Commerce Department

82-85 - Carol Minor
Office of Intelligence Liaison
Room 3520, Main Commerce Building

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[REDACTED]
Central Intelligence Agency

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Washington, D.C. 20505

18 September 1985

MEMORANDUM FOR: (See Distribution List)

FROM : [REDACTED]
Chief, Third World Activities Division
Office of Soviet Analysis

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SUBJECT : LDC Applications for CEMA Membership:
Why the Rejections?

1. The attached memorandum analyzes various factors in the USSR's decision to reject LDC applications to the Council for Mutual Economic Assistance (CEMA). In recent months, Ethiopia's application has highlighted this subject. The rejections of the seven LDCs that have applied since 1980 are one sign of the USSR's desire to limit the cost of involvement in the Third World; the memorandum also discusses these more general implications. [REDACTED]

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2. We are addressing this topic primarily in the hope of stimulating thought. The author, [REDACTED] would be pleased to exchange additional information or provide a formal briefing. Your comments may be addressed to the Chief, Third World Activities Division, Office of Soviet Analysis, [REDACTED]

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Attachment:
SOV M 85-10169, 18 Sep 85

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Central Intelligence Agency

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Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

18 September 1985

LDC Applications For CEMA
Membership: Why The Rejections? [REDACTED]

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Summary

Since 1980, seven less developed countries (LDCs)--Afghanistan, Angola, Ethiopia, Guyana, Mozambique, Nicaragua, and South Yemen--have applied for membership in the Soviet Bloc's Council for Mutual Economic Assistance (CEMA) and been rejected. Although the USSR would seem to have a strong incentive to include more LDCs as members--if only to demonstrate to the Third World the Bloc's growing strength--it has not done so mainly because it fears that such countries would have a stronger claim to Soviet economic aid and because of active lobbying by the East European members. Several other factors may have played a part in the rejections. [REDACTED]

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The Kremlin probably will continue to reject future applications in large part because its long-term strategy in the Third World might be set back if LDCs impulsively socialize their economies or more clearly signal their close ties with the Soviet Bloc by formally joining CEMA. Although the Soviets are risking seeing these regimes turn to the West for aid, the West may have

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This memorandum was prepared by [REDACTED] the Third World Activities Division, Office of Soviet Analysis. Information available as of 15 September 1985 has been used in its preparation. Questions and comments are welcome and may be addressed to the Chief, Third World Activities, [REDACTED]

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difficulty capitalizing on Third World disaffection with Soviet economic policies. [redacted]

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Discussion

The Soviets' ability to build influence in the Third World depends partly on the effectiveness of their economic policies there. Offers of military aid help them make inroads in the Third World, but their prestige among less developed countries (LDCs) probably suffers to the extent they cannot demonstrate that their commercial and economic aid policies also offer concrete benefits. One sign of the Soviets' difficulties in this area has been their recent unwillingness to admit any more LDCs into the Soviet Bloc's Council for Mutual Economic Assistance (CEMA). The only non-European states that have been allowed into CEMA have been Mongolia (1962), Cuba (1972), and Vietnam (1978) (see Appendix 1). [redacted]

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Since 1980, seven LDCs--already allied with the USSR--have unsuccessfully applied for admission into CEMA. A variety of open-source [redacted] reporting shows that Afghanistan, Angola, Ethiopia, Guyana, Mozambique, Nicaragua, and South Yemen have tried and failed. Mozambique applied in 1980; Ethiopia reportedly made several attempts, beginning in 1980; Angola applied in 1982, and the other four countries in 1984. [redacted]

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Several possible considerations may have contributed to these rejections:

- Costs. The countries' tremendous capital needs convinced the Soviets that CEMA membership would lead to demands for additional large expenditures to support their economies, and economic stringencies in the USSR would make such a burden unacceptable.
- East European opposition. East European leaders, who have their own economic troubles, lobbied the USSR to keep CEMA membership at its present size.
- Fear of capital flight. Moscow believed that if indigent clients joined CEMA, their Western sources of capital would dry up and domestic entrepreneurs would flee, undermining the countries' economies.
- Stability of the regimes. The USSR rejected applications from regimes it considered to be unstable because it did not want to invest in countries that might later stray from their socialist or pro-Soviet orientation.
- Strategic considerations. Admission to CEMA could imply to successful applicants a public guarantee of military

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[redacted]

and political support, and Moscow judged that none of them were of sufficient strategic importance to justify it.

-- Unsuitable economies. The Kremlin doubted that the applying countries had instituted the degree of central planning needed to integrate their economies with those of the more developed CEMA countries.

-- Soviet control. The USSR may believe that new members could form voting blocs within CEMA to oppose its policies. [redacted]

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Why the Rejections: Testing the Hypotheses

The Costs

The tremendous capital needs of those countries that have applied for CEMA membership are self-evident; they are among the poorest in the world. In 1984 the GNP per capita in Afghanistan, Ethiopia, and Mozambique ranged roughly from \$120 to \$165, and literacy rates from 12 to 15 percent. The average GNP per capita in 1984 for all seven countries denied CEMA membership was around \$440.* [redacted]

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Reporting from State Department and other sources suggests that the applicant countries were hoping membership would bring them more economic assistance from the socialist Bloc--being doubtless aware that each of CEMA's current LDC members (Cuba, Vietnam, and Mongolia) receives far more Communist aid than any other Third World country. On the other hand, most nonsocialist LDCs probably harbor few illusions about the economic rewards of membership. In the early 1960s, the Soviets often mentioned the doctrine of "leveling up"--raising the economies of the poorer socialist states to the level of the more advanced ones--but their pronouncements have hardened considerably since then (see Appendix 2) This doctrine may nevertheless have played a part in leading some client states to hope for concrete payoffs from CEMA membership. [redacted]

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*In contrast, the USSR's GNP per capita in 1984 was \$7,120; in Eastern Europe, the GNP per capita ranged from \$5,200 (Romania) to \$9,800 (East Germany). These figures roughly illustrate the large contrast in economic development between CEMA's actual and would-be members, but they are calculated by different methodologies. The applicants' GNP is calculated from foreign exchange rates, and the Communist countries' is based on purchasing power parities. [redacted]

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At the CEMA ministerial meeting in Havana in October 1984, some of CEMA's six observers--Afghanistan, Angola, Ethiopia, Laos, North Korea, and South Yemen--reportedly tried to increase their aid receipts from the Bloc, and some tried to become members. When Ethiopia sent a delegation to the CEMA meeting in Warsaw in June 1985, [] its leaders expected a large volume of Soviet economic aid. According to the US Embassy, a senior Ethiopian official told an East European diplomat that Addis Ababa would get out of CEMA exactly what you (the European members) put into it." []

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During the CEMA summit in June 1984, President Daniel Ortega may have tried to persuade the USSR to admit Nicaragua and include it in the final communique as one of the less developed states (along with Cuba, Mongolia, and Vietnam) whose economic development the European members pledged to try to accelerate. Around the same time, Bayardo Arce, a high-level Sandinista official, reportedly complained [] that the USSR had twice refused Nicaragua's request to join; Arce believed these rejections increased the Ortega regime's concern for the country's economic viability. A CEMA delegation eventually went to Managua to analyze the nation's economic problems and, [] CEMA members then began to consider a multilateral aid program for Nicaragua.* []

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Guyana reportedly also applied to CEMA in the hope of obtaining more aid. [] the Guyanese asked the Cubans to support their application and the Cubans warned them that their large aid requirements would make a positive response unlikely. []

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Aid transfers to LDCs in individual cases probably would not cause the USSR serious economic concern in the short term, but the current competition for resources at the margin allows very little leeway for Soviet planners to divert much financial aid to

*According to Embassy reporting, the inaugural meeting of the CEMA-Nicaraguan Mixed Commission, held in Bulgaria in September 1984, reviewed economic cooperation and trade. []

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[] Nicaragua is planning to phase out its bilateral agreements with socialist countries and will begin conducting its economic relations with them through CEMA. We believe, however, that the economic impediments that already prevent multilateral trade on a significant scale among socialist countries and lead them to prefer bilaterally balanced trade will impede movement in this direction. The dispatch of a CEMA delegation to Managua probably was an effort by the USSR and its European allies to soothe the Nicaraguans after the rejection of their multiple requests for membership. []

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[redacted]

new CEMA members. A decision to give Ethiopia (the poorest applicant) the same volume of aid that Cuba (the largest Soviet aid recipient) received in 1984* would involve only 0.2 percent of the USSR's roughly \$2-trillion GNP. The strain on the Soviet economy could begin to mount, however, if the admission of one country created irresistible pressure to admit many others. The marked slowdown in Soviet economic growth has increased the importance of relatively small reallocations of resources from one sector of the Soviet economy to another. The diversion of billions of dollars' worth of resources to new CEMA members would greatly complicate the planners' already difficult juggling of funds among the principal domestic claimants--the consumer sector, growth-enhancing investment, and defense. [redacted]

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Reinforcing Moscow's concern about admitting new LDCs to CEMA membership are the recent large increases in Soviet aid deliveries to the present LDC members. In 1982 these three states together received \$7.3 billion in Soviet assistance; this marked a large shift toward the non-European members in the USSR's burden of support for CEMA. In 1980, Eastern Europe received almost 70 percent of Moscow's total aid to CEMA members (\$12.5 billion out of \$18.2 billion), but four years later its share was only 27 percent (\$2.4 billion of \$8.8 billion).** (See figure.) [redacted]

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Indeed, the burden of supporting the three non-European members may very well rise. During the June 1984 summit in Moscow, the more developed members of CEMA promised in their

* Of the \$4.6 billion that we estimate Cuba received in 1984, more than three-fourths consisted of trade subsidies for Cuban sales of sugar and nickel to the USSR and purchases of petroleum from the USSR. Most of the remainder is trade and development aid that we have calculated from (a) estimated balance-of-payments aid necessary to cover Cuban soft currency trade deficits with the USSR, (b) Cuban purchases of capital goods from Moscow, and (c) public statements by Cuban and Soviet officials concerning the amount of development aid extended. Appendix 5 provides additional details on our calculation of Soviet and East European economic aid to client states and other LDCs. [redacted]

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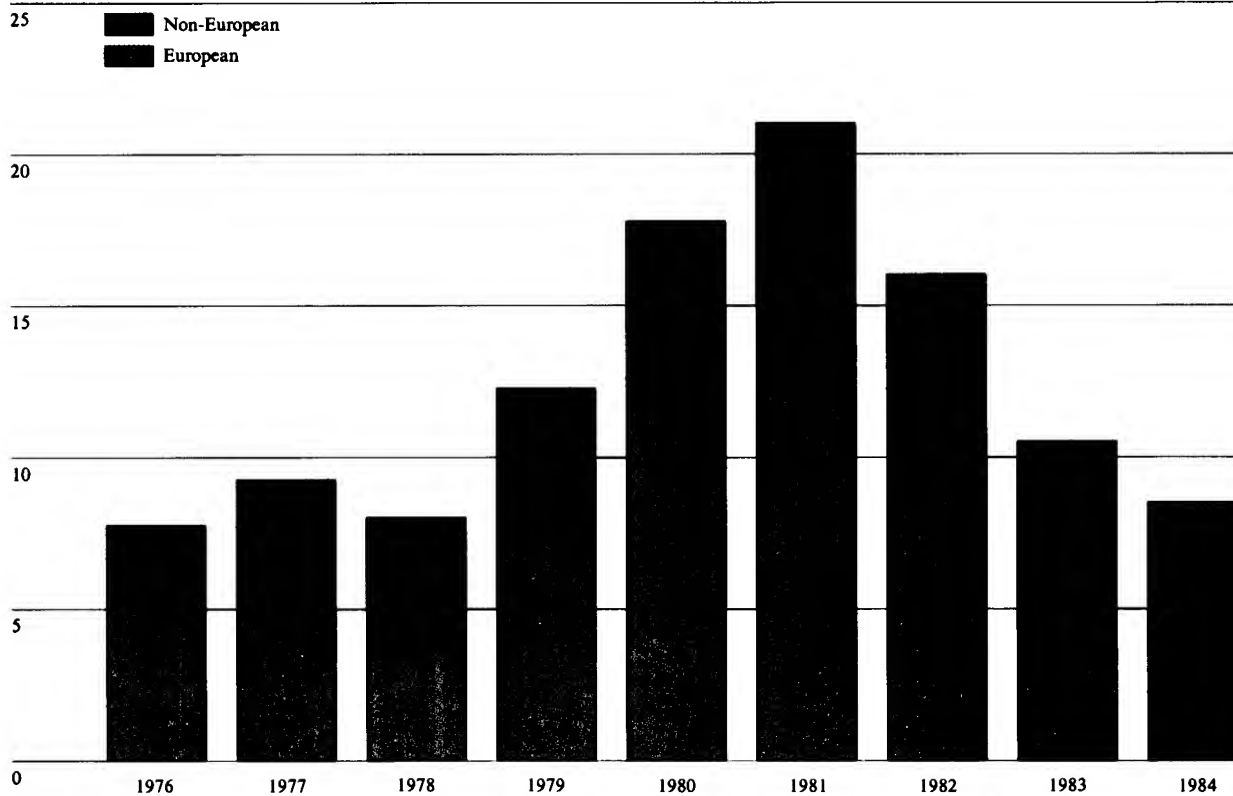
**Our estimate for Soviet aid to Eastern Europe is based on the sum of the USSR's oil subsidies and trade surpluses with these countries. The estimate of Soviet aid to Cuba is discussed in the previous footnote. Our calculation of the USSR's aid to Vietnam and Mongolia is based on the value of its trade and development aid (estimated from reported Soviet trade surpluses) and oil subsidies. For Vietnam, we also include our estimate for the value of Soviet grants (based on the proportion of grants in reported commitments) and technical services. [redacted]

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Estimated Soviet Economic Aid to CEMA, 1976-84

Billion US \$



Note: The European members are Bulgaria, Czechoslovakia, East Germany, Hungary, Poland and Romania. The estimates for these countries include oil subsidies and trade surpluses. The estimates for the non-European members--Cuba, Vietnam, and Mongolia--include trade and development aid, technical services, oil subsidies, and other hard currency support.

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"economic declaration" to comply with their "international obligation" to speed up economic growth in Vietnam, Cuba, and Mongolia and to move toward raising the economies in these countries to the level of the European members. The Soviets almost certainly recognize that, while the East Europeans may make some contribution, the USSR will continue to shoulder most of the burden. We estimate that the USSR supplied roughly \$7 billion to CEMA's less developed members and observers in 1983, while Eastern Europe supplied only around \$300 million.

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Complaints by the present less developed members probably reinforce Moscow's reluctance to admit other LDCs to CEMA.

- Cuba. Several irritants probably contributed to Castro's decision not to go to Moscow for the June 1984 CEMA summit. Perhaps most important, however, was Cuban resentment over the present structure of Bloc aid, which emphasizes Havana's role as a supplier to CEMA of raw materials (particularly sugar, nickel, and citrus fruit) rather than increased production of industrial goods.

In a June 1984 interview, Vice President Rodriguez complained that Cuba still did not produce enough computer components and other electronic equipment. He stated that Cuba, Vietnam, and Mongolia would like to increase industrialization not only in the processing of raw materials but also in the mechanical and electronic sectors. That fall, in an article in the Cuban daily Granma, Castro suggested his irritation that some of the East Europeans had not been prompt or generous in their aid commitments: "Insofar as Cuba is concerned, we . . . declare ourselves satisfied with the progress made in coordinating plans for the period 1986-1990, although some countries are a bit delayed. . ."

- Vietnam. At the CEMA ministerial meeting in October 1984, according to the US Embassy in Havana, the Vietnamese representative for the first time complained--tactfully--about the discrepancy between Cuba and Vietnam in level of aid. Around the time of the June 1985 CEMA meeting in Warsaw, the Vietnamese deputy premier said that his government could not meet its debt payments to CEMA and asked for a rescheduling agreement, new financial credits, and preferential trade arrangements for Vietnam within CEMA. A Soviet economist working on CEMA affairs told the US Embassy in Moscow that Vietnam would be a more "difficult case" than Mongolia or Cuba because its per capita income was much smaller than those of the other two.

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[REDACTED]

Mongolia also may be exerting pressure for more Soviet aid. A Soviet economist, commenting on the June 1984 CEMA declaration that promised to accelerate economic development in Cuba, Mongolia, and Vietnam, told a US Embassy official: "The Mongolians used to ask us to help draft their speeches, but . . . they have learned how to squeeze us hard." [REDACTED]

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Private statements by Soviet officials and articles in specialized journals suggest that Moscow considers the size of its economic assistance to the current LDC members to be a deterrent to admitting any more members to CEMA:

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[REDACTED]

-- During a conference in July 1984, a Soviet Africanist explained the rejection of Mozambique in late 1980 to American scholars, saying: "We already have two poor countries in Cuba and Vietnam, and we don't need any more."

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[REDACTED]

-- Some Soviet specialists on the Third World have hinted that today's radical states cannot expect to receive as much financial support as the early followers of the "noncapitalist path" (like Mongolia), and they have implied that distance from Moscow would influence the level of Soviet economic aid. [REDACTED]

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East European Opposition

At first glance, it is difficult to see why the East Europeans should fear the entry of more LDCs into CEMA. Given CEMA's general disinterest in Third World issues and the bilateral rather than multilateral emphasis of its aid to the Third World, enlarging CEMA would hardly seem to threaten further strain on Soviet or East European financial resources (see Appendix 3). Furthermore, the level of bilateral aid that the East Europeans are giving to the present LDC members is so modest

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that it would seem to undercut any argument they might make to the Kremlin against enlarging CEMA. [REDACTED]

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The East Europeans could hardly fear that enlargement would shift the burden from the USSR to them; according to our calculations, the burden of aid to CEMA's LDC members and observers during 1979-84 weighed around 40 times as heavily on the USSR as on Eastern Europe, as a share of GNP per capita (see table on next page). In the case of Afghanistan, the USSR extended over 90 percent of the Soviet Bloc's economic credits and grants from 1980 to 1984. [REDACTED]

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Nonetheless, the East Europeans probably feel they have less leeway than the Soviets in providing even a modest level of aid and that the cost is relatively greater for them than for Moscow. Between 1980 and 1984, the Soviet economy grew on average by about 2.5 percent per year, while the East European economies as a whole grew by only 0.9 percent; their slow growth makes even small shortfalls in the funds available for domestic investment and consumption appear critical. These countries almost certainly view the Marxist states in the Third World as a further drain on their already overburdened resources. In fact, the East Europeans have long claimed that they cannot expand their economic support to LDCs. A Hungarian economist warned in 1976, for example, that Budapest should take careful stock of "its own economic ability" before embarking on aid projects that exceed the "limits of its own capacity." [REDACTED]

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The East Europeans have several other reasons to fear the entry of more LDCs into CEMA:

- They probably fear that if a new member came in, Moscow would accelerate the recent trend of reductions in Soviet aid to them. They may believe that such an LDC would be able to pry more aid from the Soviets, who would not want to see a new member of the "socialist commonwealth" turn to the West. The East Europeans may believe that they are already indirectly carrying most of the burden of aiding the LDC members, since most of CEMA's fuel and mineral projects scheduled for 1986-90 will be located in Cuba, Vietnam, Mongolia, and the USSR--despite Eastern Europe's own urgent energy needs.
- They probably believe Moscow would exert greater pressure on them to come up with "fraternal assistance" to new members. Even though CEMA does not appear to raise or disburse its own funds on a multilateral basis to LDCs, we believe the Soviets take advantage of the various CEMA meetings to cajole or bargain with their European allies to boost their bilateral aid to the non-European members (helping Moscow reduce its own burden). In return, the Soviets probably offer concessions on other CEMA

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**ESTIMATED SOVIET AND EAST EUROPEAN
AID TO THE THIRD WORLD
(Annual averages, 1979-84)**

million US \$

Recipients	Soviet Aid a	East European Aid b
CEMA's LDC Members (Cuba, Vietnam, and Mongolia)	6,420	20 c
CEMA's LDC Observers (Afghanistan Angola, Ethiopia, Laos, North Korea, and South Yemen)	940	50
Nicaragua and Mozambique	70	100
Non-Communist LDCs d	1,470	710
TOTAL	8,900	880

Note: This figure is intended to suggest differences in the order of magnitude between Soviet and East European economic aid rather than exact aid flows.

a. For Soviet aid to CEMA's three LDC members and to North Korea and Laos, the average aid flows include, where applicable, our estimates of trade and development aid, technical services, oil subsidies, and other hard currency support.

b. East European flows to North Korea, Mongolia, and Cuba are estimated from annual trade surpluses with these LDCs. These figures probably are slightly understated because they do not include the trade surpluses of East Germany, which does not disaggregate exports and imports in its published trade statistics.

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c. Five-year average based on 1979-83 data because 1984 data unavailable.



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issues. For example, a US Embassy source reports that Bulgaria agreed, around the time of the June 1984 CEMA summit, to give more support to the poorer members-- including setting up aid programs for Vietnam and Cuba-- in return for the Soviet assurances on energy supplies and higher prices for Bulgarian agricultural exports to the USSR (see Appendix 4).

- They probably feel they should anticipate LDC applications and oppose them early on, to avoid such pressure from Moscow. Although the USSR may do little when an LDC first gains admission, the East Europeans probably believe the pressure will come later.

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Another reason why the East European regimes would resist large new aid programs is that they have far fewer direct military, political, or other noneconomic interests in meeting Third World needs than the USSR has.

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Given these motivations, it is not surprising that Eastern Europe has lobbied strongly against LDC applicants. In 1978, according to open-source documents, Czechoslovakia and Hungary opposed Vietnam's admission to CEMA--unsuccessfully. In late 1980, when Mozambique tried to join, East European opposition proved to be effective. At that time, President Machel told a visiting CEMA delegation that he expected major development aid commitments before taking such a step. The delegation's reaction reportedly was mixed, with the Soviets visibly pleased and the others equivocal. Hungary, Romania, and Poland opposed the application. The Hungarians argued that CEMA had problems enough without Mozambique and that membership would imply a large economic aid commitment. The USSR eventually went along with the East Europeans and told Mozambique it would not be admitted.

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The only indication since 1980 that Moscow may have pushed for the admission of an LDC came shortly before the June 1985 CEMA meeting in Warsaw, when some diplomatic sources thought the Soviets favored Ethiopia's entry. We believe the initiative came from Mengistu rather than from Moscow. The Soviets may not have wanted to reject the application themselves and probably decided to let the issue come to a head during the meeting, knowing they could count on the East Europeans to squelch it instead. In any event, many of the East Europeans clearly expressed their opposition. A senior Czechoslovak diplomat told a US Embassy official in Addis Ababa that Prague was opposed because the Ethiopians could not repay the principal or interest that they already owed nor provide goods to compensate Czechoslovakia for its past investments in their country. An East German diplomat told the US Embassy that Addis Ababa looked on CEMA membership as a way of "getting something for nothing," noting that Ethiopia could not contribute any economic benefit to CEMA.

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Although Soviet leaders probably reason that they can more easily press the East Europeans to boost aid to Moscow's Third World clients if these LDCs are admitted to CEMA, they also have strong reasons to go along with the East European pleas for rejection. Moscow knows that many of its European allies, especially Romania and Poland, continue to face serious economic problems. It also knows that economic privation could affect political stability in some East European countries, jeopardizing this prime area of Soviet strategic concern. Because the Soviets have incurred economic and political debts through other actions--such as cutting back oil supplies to Eastern Europe and seeking a redirection of trade within the Bloc--they probably consider it prudent to relent on demands that affect their own economy only indirectly, such as requiring large transfers of East European resources to Soviet clients in the Third World.

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Fear of Capital Flight

The Soviets have made it clear that--broadly speaking--they would prefer that an LDC develop its economy by building up its public sector rather than by relying on private capital. They frequently state that LDCs should develop economic links with socialist countries to strengthen their state sectors, especially heavy industry, rather than turning to the World Bank, regional development banks, multinational corporations, or domestic entrepreneurs. For example, the Soviet press has criticized Egypt's late President Sadat for his "bankrupt" economic policy of encouraging private capital inflows, on the grounds that it discouraged "socially significant projects" and caused a more inequitable concentration of wealth. In contrast, Moscow has praised Egypt's recent plans to direct more capital to the state sector. During the June 1984 CEMA summit, a Soviet journal blamed the Third World financial crisis largely on weaknesses in LDCs' state sectors and on their "great dependence on world capitalist markets and on activities of multinational companies." The article stated:

To give their cooperation with the developing states a more stable and planned character, the socialist countries are directing their efforts to strengthening the planning principles of economic development. . . . First of all, the socialist countries strive to strengthen in these countries the socioeconomic basis of planning, which must be built on the state sector. Virtually all the enterprises that are built with the assistance of CEMA countries are built within the state sector.

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At the same time, the Soviets realize that the "construction of socialism" in the Third World is a gradual and complicated process; they have indicated that, if the process is to sustain itself, LDCs must not move too rapidly while building the

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[redacted]

economic and social bases required for socialism. Since the 1960s, some Soviet academic specialists have been alluding to the danger of provoking flights of domestic and international capital from LDCs. They have been giving more attention to the internal problems of developing countries, including socialist LDCs, stating that low growth results from deep-seated social and economic factors. These specialists acknowledge Moscow's inability to reduce developing countries' extensive ties with the capitalist market, and a minority have even made favorable comments about multinational corporations (although they were careful to couch their praise in Marxist terminology). They have recommended that radical leaders deemphasize collectivized agriculture and forge alliances with moderate forces in order to buy domestic peace and international financial aid. [redacted]

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We have no direct evidence that Moscow has barred any LDC from CEMA for fear of provoking a massive flight of domestic and Western private capital from that country and thus creating even greater requirements for Soviet financial support, but several examples suggest that Moscow may have advised LDCs against membership on those grounds. When Ethiopia tried to join in early 1984, according to a US press account, the Soviets cautioned Mengistu not to look to CEMA for the kind of economic support given to Cuba but rather to court the West for aid and investment. They also advised him to avoid doctrinaire Marxist economic policies, both internal and external. The Soviets have not given Mozambique enough economic aid to deter it from rapidly expanding its economic ties with the West, and we believe they probably advised the Nicaraguan regime that CEMA membership would alienate Western commercial creditors and cut off those sources of official Western aid still available. [redacted]

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The USSR has given similar advice to LDCs that have not expressed interest in joining CEMA. In late 1982, [redacted]

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25X1 [redacted] the USSR was disinclined to provide large-scale economic aid because sudden inputs of Soviet aid in the past had driven potential Western donors, the International Monetary Fund, and the World Bank away from other recipients. A Soviet diplomat explained that, in light of Western biases against the leftist Mauritian Government, the USSR did not want to give the West an excuse to abandon the country altogether.

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25X1 [redacted] Moscow told Syrian officials in October 1984 they should not have allowed their relations with the Gulf states to deteriorate, since those countries had been a dependable source of financial aid. [redacted]

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25X1 Fear of Regime Instability.

Statements by Soviet area specialists and references in the press indicate that the USSR has become more alert to possible

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[redacted]

instability in the Third World, particularly when it might threaten set-backs to regimes proclaiming loyalty to Marxist-Leninist ideology and Soviet foreign policy. Doubts about a regime's staying power may have played a part in several of Moscow's rejections. Painful experience--for example, expulsion from Egypt in 1976 and from Somalia in 1977--probably intensified the Soviets' reluctance to take on the major commitment of granting CEMA membership before they are satisfied with the regime's prospects for long-term survival. [redacted]

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In calculating these prospects, the Kremlin probably would weigh the following factors:

- The existence of a Soviet-style Communist Party.
- Possible factionalism within that party.
- The country's level of social and economic development.
- The local party's ability to control spontaneous expressions of opinion.
- The "social allegiance" of the party's leaders (that is, whether they come from a "proletarian" background or from a less "reliable" social class--such as the petty bourgeoisie or the Western-trained intelligentsia).

Soviet area specialists have distinguished among leftist LDC regimes on the basis of these criteria. Moscow puts Cuba, Vietnam, and Mongolia (CEMA's less developed members) in a separate category--and provides them more economic aid than other LDCs--because they generally support Soviet foreign policy, their ruling parties are in virtually no danger of losing control, and Moscow considers their socialist revolutions to be irreversible. The observers in CEMA fall into a less preferred category. For example, when Mozambique's application to join CEMA was rejected in late 1980, a Soviet Foreign Ministry official reportedly said that it could not qualify because it was not a true socialist country. [redacted]

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Before Moscow decides to grant such a significant sign of approval as CEMA membership, an LDC almost certainly must have a functioning ruling party that Moscow acknowledges to be genuinely Marxist-Leninist. We believe the Kremlin would require the party of a country joining CEMA to function along the same lines as the Communist Party of the Soviet Union, not as a mere "vanguard" or "democratic revolutionary" party. This criterion alone probably would destroy any hopes that Angola, Ethiopia, Mozambique, and especially Guyana currently may harbor for joining the "socialist commonwealth." [redacted]

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The Soviets arrogate to themselves the right to judge whether a party qualifies or not. They have not even upgraded South Yemen's party from "vanguard" to "Communist," although it is a reliable mouthpiece for Soviet foreign policy and is no immediate danger of losing control; they probably think that an internal schism could unexpectedly overturn the party's present leadership. As for the one self-proclaimed "Marxist-Leninist" ruling party among all the countries that have applied to CEMA--that of Ethiopia--the Soviets probably recognize that it is essentially a vehicle allowing the military to continue its dominant political role. Although they are pleased that Ethiopia established a "Worker's Party" in September 1984, they probably realize that it does not yet exert the desired level of control over the country's political and social forces and that its dependence on Mengistu and other Ethiopian leaders prevents Moscow from exerting as much influence as it wants over the party.

25X1 Another manifestation of regime instability--insurgency--probably also has played a part in the Kremlin's decision to exclude several countries from CEMA. Except for Guyana and South Yemen, every country that has applied faces insurgencies of varying degrees of strength. In Mozambique, RENAMO (National Resistance of Mozambique) is making large gains; in Angola, the regime is unable to regain large parts of the country held by UNITA (National Union for the Total Independence of Angola); and in Ethiopia, Mengistu faces persistent rebellions in the provinces of Eritrea and Tigray. In these cases, the governments' inability to control all the territory they claim probably adds to the Kremlin's concern about extending its political and economic commitment. In the case of Nicaragua, the drawbacks are the domestic insurgency and fears of a US invasion.

Strategic Considerations

25X1 The Soviets' perception of a country's geographic importance to their security interests apparently has helped determine its admission to CEMA. In 1949 the USSR organized CEMA, primarily to forestall Czechoslovakia from accepting Marshall Plan assistance for reconstructing its war-torn economy. Fearing that other members of its newly acquired East European "empire" might also be tempted by Western aid offers, the USSR ordered them to join CEMA and prohibited them from joining the organization that later became OECD. The non-European CEMA members are also important to the USSR in its relations with its major adversaries. Vietnam and Mongolia are importantly located as counterweights to China; and Cuba--as well as being a thorn in the side of the United States--helps Moscow gain leverage with other Latin American countries and provides vital military services to Soviet clients in Africa.

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But, even though strategic importance has helped define eligibility for CEMA membership, it has not ensured acceptance. If it were the sole determinant, the Soviets would have admitted such client states as Nicaragua and Afghanistan. Nicaragua, like Cuba, plays a role in undermining American influence in Central America, and the strategic importance of Afghanistan (a contiguous battlefield where almost 120,000 Soviet soldiers are fighting for military control) is self-evident--but neither is a member of CEMA. Geographic and strategic importance alone clearly is not sufficient to ensure an applicant's admission to CEMA, even though it probably is a necessary condition. [redacted]

The USSR may have rejected applications from "socialist-oriented" regimes in part to avoid giving even strategically placed LDCs the impression that CEMA membership is tantamount to a greater Soviet security commitment. Although such regimes almost certainly realize they stand no chance of joining the Warsaw Pact, they may believe that formal CEMA membership provides more of a guarantee against perceived threats from the West than nonmembership, because it is a closer link to the USSR. Unless Soviet leaders had explicitly decided to broaden the USSR's military commitment, they almost certainly would try to avoid giving that impression to a Third World client. [redacted]

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Insufficient Central Planning

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CEMA is primarily a multilateral forum for the discussion of economic issues concerning the USSR and the East European states, such as the integration of their various industrial sectors. As an organization, it has virtually nothing to do with meeting the development needs of its less developed members, and nothing at all with meeting those of other socialist clients or non-Communist LDCs. Financially, it funds economic specialization projects in the USSR and Eastern Europe and is a clearing house for soft currency trade accounts among its members. Since industrial integration and economic specialization presume that a regime has a well-developed system for planning and mobilizing its capital and labor resources, CEMA focuses almost all its efforts on the USSR and the countries of Eastern Europe. The LDC observers and applicants are much less suited to central planning than the European members, which have larger industrial bases and work forces, more facilities to train planning officials, and apparatuses for gathering the economic data that give planners the feedback they need on economic performance. [redacted]

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CEMA's focus on European-style developed economies is evident in the founding charter, which states that admission "shall be open to . . . countries which share the purposes and principles of the Council"--foremost among which is the promotion of "cooperation and development of socialist economic integration." The June 1984 summit also illustrated this focus. Judging from US State Department reporting and the summit's final

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[redacted]

communique, the members spent most of their time debating issues of concern to the Soviets and East Europeans, such as securing Soviet energy and raw material supplies and improving the quality of East European goods exported to the USSR. Even though the summit addressed the three poorer members' demands for more aid, Third World issues were much lower on the agenda. In June 1985, during CEMA's annual prime ministers' meeting in Warsaw, the members again dwelt on issues primarily of concern to the Europeans, such as cooperation between CEMA and the European Community and Soviet supplies of natural gas to Eastern Europe. Angola, Afghanistan, South Yemen, Laos, Mozambique, Ethiopia, and Nicaragua again sent observers to the session, and the CEMA countries reaffirmed their economic ties with Nicaragua--which seems to have attended as a full-fledged observer for the first time. The Ethiopian regime, however, was unable to move from observer to member status, despite strong indications that it had expected to do so. [redacted]

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The lack of economic complementarity between CEMA's European members and the LDC observers--reflected in their sparse trade relations--would greatly inhibit economic integration in any case. One observer calculated that the 1981 trade turnover between CEMA members and the five observer countries amounted to \$1.8 billion, or only 4.6 percent of the members' trade with all LDCs. [redacted]

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CEMA's orientation toward the developed members makes it logical to assume that the USSR rejected the desperately poor clients--such as Ethiopia, Afghanistan, and Mozambique--at least in part because of their undeveloped economic infrastructures. In 1981 a Soviet official reportedly said--perhaps not altogether disingenuously--that Mozambique's application had been denied because it could not provide qualified personnel to sit on CEMA's many committees; he added that Mozambique had not yet developed the full range of economic ties with individual CEMA members needed for integration into the organization. A Czechoslovak diplomat in Addis Ababa, discussing Ethiopia's bleak economic and agricultural situation, pointed to a lack of planning--as evidenced in the poor preparation of the program to resettle drought victims--to explain the country's inability to feed itself. He also commented on Ethiopia's deteriorating infrastructure and unrealistic 10-year plan and said that a lack of coordination among the various Ethiopian ministries often delayed Czechoslovak aid projects. An East German diplomat agreed that Ethiopia lacked the economic structure to become a full CEMA member. Several factors probably played a part in the rejections of Mozambique, Ethiopia, and other LDCs, but their inability to coordinate their economies with those of the European members probably was one factor. [redacted]

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There are several LDCs that have economic planning apparatuses and could perhaps have joined CEMA if that were the

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deciding factor. North Korea, Yugoslavia, Albania, and perhaps even India are examples. These states, however, have decided not to apply for membership in order to maintain their political distance from the USSR. [redacted]

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Fear of Losing Political Control Over CEMA

The USSR's overwhelming influence within CEMA ensures that its preferences are carefully considered on such key policy issues as the admission of new members. This influence is apparent from the preponderance of Soviet citizens among CEMA's professional personnel. Many of the Secretariat's most important subdivisions--such as the Personnel Bureau, the Economic Department, and the Department for Coordinating Economic and Technical Aid to Developing Countries--either consist solely of or are headed by Soviet citizens. [redacted]

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The issue of Soviet control has itself become a point of contention, however. For several decades, Romania--in the name of opposing "supranationalism"--has contested what it sees as Soviet attempts to dictate economic policies to Eastern Europe under the guise of "improving" economic integration. Because CEMA meetings are closed and the only reporting on them is from the participants, we have very little information on whether the European or less-developed members form "coalitions" within CEMA to take issue with Soviet positions. If other LDCs joined the organization, the USSR probably would expect them to align themselves with groupings that Vietnam, Cuba, Mongolia, or Romania might form in an attempt to correct perceived inequities in Soviet policies. We lack any evidence that the USSR did, in fact, consider this factor when it denied the various applications for membership; although plausible, it almost certainly is secondary to other considerations. [redacted]

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Implications and Prospects

Although the Soviets' aim in recent years has been to consolidate CEMA by resolving disputes among the European members, they also would seem to have a strong incentive to expand its ranks. If only for political symbolism, Moscow might want to demonstrate to the Third World the growing strength of the Communist Bloc and the desirability of following the Soviet model for economic development. Competition with China in the Third World would seem to be another incentive for enlarging CEMA. Far from seeking more members, however, the Soviets have rebuffed some of their closest Third World clients and have warned them not to jeopardize their economic links with the West. [redacted]

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The perception of the unacceptable cost of supporting new members seems to be the most important factor in the rebuffs; a great deal of evidence (particularly private and public

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statements by Soviet and East European officials) testifies to the strong views held about the significant cost of enlarging CEMA, whereas the evidence supporting the other factors, while in some cases substantial, is largely inferential. Such other considerations as the stability of the particular LDC regime seem to have played significant roles, but subordinate to the cost. Even strategic importance, which appears to be a prerequisite for membership, is not sufficient alone. [REDACTED]

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Two factors could change, making Moscow more sympathetic toward a future applicant:

- The USSR's domestic economic growth rate could rise. Sustained economic improvement could ease the current taut allocation of funds among existing domestic claimants, leaving more resources for new CEMA members. This would lower the cost side in Moscow's cost/benefit calculations.
- The Soviets could perceive an increase in the political benefits of bringing the particular LDC into CEMA. An increase on the benefit side of the calculation might warrant the added cost, even if Moscow's ability to carry this burden remained unchanged. [REDACTED]

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We consider both of these changes to be unlikely:

- Even though the Gorbachev regime appears anxious to reinvigorate the economy, the new General Secretary may not want, at least initially, to expend the political capital it would take to make the types of systemic changes required for sustained improvement. And if economic growth did speed up, the military and the consumer sectors in the USSR almost certainly would argue that they--not the Third World--should be the first to benefit.
- Given the possible LDC applicants, Moscow currently has little chance of making large political gains by admitting more countries to CEMA. In fact, the Soviets are likely to consider it politically advantageous to refuse future requests.

For example, the Soviets could well calculate that upgrading Afghanistan from observer to member would indicate Soviet domination more clearly, marginally hurting President Karmal's pretensions as a "nonaligned" Third World victim of "imperialist aggression." They would especially want to avoid this during the indirect negotiations between the Pakistani and Afghan Governments presently being conducted under UN sponsorship in Geneva, but Afghanistan might become a member if the Soviets later became less concerned about preserving the fiction of its

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independence. As for indigent countries like Mozambique, Ethiopia, and South Yemen, the Kremlin probably believes it is in its own interest to encourage them to maintain relations with private Western capital and multilateral institutions. It would have to carefully weigh any possible political benefit from admitting such countries against the added costs that would ensue from a massive flight of Western capital. Thus, we believe that the USSR will probably discourage and, if necessary, reject future applications either directly or (as apparently occurred in Ethiopia's case) by using East European opposition. [redacted]

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Reluctance to underwrite the immense development needs of destitute clients only partly explains why Moscow probably will reject future CEMA applicants. The Soviets have learned that they do not advance their long-term political aims in the Third World by pushing socialist structures on ill-prepared countries with ineffective bureaucracies, unskilled work forces, and primitive market economies or by indicating an LDC's close relationship to the Soviet Bloc with measures such as granting formal CEMA membership. Most of the countries that have tried to join CEMA have economies based on subsistence agriculture, very small industrial sectors, minimal overall growth rates, and chronic balance-of-payments problems. [redacted]

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The experience in Afghanistan in 1979 demonstrated the disaster that can result when a radical regime quickly institutes sweeping social and economic changes that the political system cannot absorb. This "leftist adventurism" evoked broad resistance and led to the need for large-scale Soviet military involvement, costing the USSR considerable good will among nonaligned countries and subjecting it to Western economic sanctions. Similar "economic adventurism" destroyed the hopes Moscow had nurtured during Salvador Allende's presidency in Chile. These failures almost certainly convinced the Soviets to counsel radical regimes against pursuing policies that both they and the regime leaders may instinctively have preferred. [redacted]

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The USSR probably will not only refuse to accept more client states into CEMA; it also may make "socialist-oriented" LDCs the target of any economic aid cutbacks it may decide are necessary. Since 1983, CEMA's three LDC members have been receiving more in economic aid than Eastern Europe, and the observers also receive substantial amounts. Should Moscow decide to reduce aid allocations, these countries offer the biggest potential savings and probably would be affected the most. As a result, resentment among Soviet clients in the Third World could very well increase. [redacted]

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Thus, the Soviets have taken a calculated risk. By refusing requests by CEMA observers and other client regimes for large economic aid programs, Moscow in effect has left these regimes little alternative but to turn to the West for aid. For example,

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by providing less aid than Mozambique sought in 1982-83, Moscow contributed to its turning to South Africa for military and economic relief and the signing of the Nkomati Agreement in March 1984. []

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The Kremlin probably believes these risks are acceptable because it has other ways to retain influence in radical Third World states. Military equipment and advice, for example, can be crucial in helping fledgling regimes secure and maintain state power. Moscow also can influence a client by building up its internal security force and helping its leaders create the political organizations they need to retain power; many clients probably find such aid to be more important than economic assistance, at least initially. Some LDCs are also eager for Soviet aid in developing state-sector industries, in which Western firms often refuse to invest. These types of Soviet military, security, and economic aid offers may more than compensate for stinginess toward economic development needs. []

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As part of its gamble, Moscow probably calculates that the West also will be unwilling to spend the billions of dollars the Third World Soviet clients need. Even if Western countries did bail out these LDCs, Moscow would have good reason to think that the military and security aid ties it has forged with them would prevent them from straying too far into the Western camp. []

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The decision that Moscow appears to have made--to keep CEMA at its present size--and its paltry economic aid record probably have ramifications beyond radical LDCs. The Kremlin's economic aloofness from its own clients illustrates to nonaligned LDCs the peril of relying on the East for development aid. The Soviets already have to deal with a growing tendency in Third World states, especially those in West Africa, to turn away from central planning and toward market mechanisms. And non-Communist LDCs probably will become increasingly disenchanted as the Soviets, in response to domestic economic stringencies, continue to emphasize those economic aid projects that most benefit its own economy. []

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To counteract this tendency, the Soviets will actively seek to capitalize on factors in the global economy that tend to alienate LDCs from Western influence. They probably will continue to seek barter arrangements to take advantage of Third World frustration over the debt crisis and Western protectionist measures against LDC exports. []

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For example, the Soviets have trumpeted their willingness to allow Peru to pay off its debt to the USSR with manufactured goods, contrasting this to the harsh terms imposed by the International Monetary Fund. []

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[], by allowing Peru to repay its debt with goods rather than cash, Moscow has gained

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[redacted]
a tremendous amount of good will [redacted]

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[redacted] The Kremlin probably realizes that Peruvian leaders welcome sales to the Soviet market as a way of reducing unemployment in Peru's hard-pressed industrial sector. The diplomat stated that the USSR's objective in negotiating this agreement was more political than commercial; he commented that Moscow would consider similar arrangements with other Latin American countries and expected this flexibility to garner good will for the USSR in other geographic regions. [redacted]

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Overall, the West may find it difficult to capitalize on the USSR's unwillingness to give the economic aid desired by Soviet clients and the non-aligned LDCs. Although the United States and its allies would seem to be in a good position to lure disaffected LDCs from the Soviet camp, the effort is bound to be complicated and sometimes unsuccessful. To translate the Third World's disaffection with Soviet aid policies into good will toward the West is another complex undertaking; economic assistance could simply become a mechanism for shoring up pro-Soviet Marxist regimes. Western leaders will have to expect that any gains they may make from Third World dissatisfaction with Soviet economic aid will depend on their skillful analysis and manipulation of circumstances peculiar to each developing country. [redacted]

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APPENDIX 1

Types of Association with CEMA

When CEMA was formed in 1949, its members were Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania, and the USSR. After periods of observer status, Mongolia, Cuba, and Vietnam acceded to full membership in 1962, 1972, and 1978, respectively. Albania stopped participating in CEMA activities in 1961. [redacted]

Moscow grants several lesser degrees of participation to countries not in its camp:

- Associates. Yugoslavia held observer status from 1956 to 1958, and since 1965 it has been affiliated as an "associate" under a special agreement.
- Observers. China became an observer in 1956, rejected an invitation to join in 1962, and participated in some standing committees from 1962 until 1966. The six CEMA observers are North Korea (1957), Laos and Angola (1976), Ethiopia (1978), South Yemen (1979), and Afghanistan (1980). It appears that Nicaragua became a formal observer in 1985, although we do not have any authoritative statement from CEMA on this matter. North Korea attended CEMA sessions from 1976 to 1978 and then stopped, according to open reporting. Its spotty attendance was due not to a Soviet rebuff but to its decision to follow China's lead in foreign policy.
- Lower Level Observers. Kampuchea and Mozambique also have attended some CEMA meetings, but open-source listing do not consistent include them as full-fledged observers. These countries have participated in low-level technical meetings, such as those discussing cooperation in transportation and energy.
- Special Agreements. Four other nonmember states--Iraq, Mexico, Nicaragua, and Finland--have signed special agreements with CEMA covering commercial, scientific, and technological cooperation. The agreement with Iraq, for example, calls for aid to the oil and gas industry, the power generation sector, and agriculture.

Because CEMA is, above all, a "socialist club," Finland, Iraq, and Mexico do not normally attend its regular sessions. Mexico, however, attended the ministerial meeting in Havana in October 1984. [redacted]

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APPENDIX 2

The Hardening of Soviet Views on
"Leveling" Among Socialist Countries

In 1959--at a time when CEMA had no Third World members--Khrushchev stated in Pravda that all Communist countries would achieve the stage of "full Communism" at about the same time. Among the goals listed in Article I of the May 1960 CEMA Charter is "the raising of the level of industrialization in the industrially less developed countries." The authors apparently intended this phrase more as an ideological truism than as acknowledgement of an obligation. A Soviet official, commenting on this part of the charter, said:

In the process of realizing this goal, countries with less developed economies are quickly raising their national products to the level of the leading states of the socialist camp, (and) the level of economic development of all the countries of socialism is rising.

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In 1971, CEMA's "Comprehensive Program" referred to leveling as a firm policy--a low-cost gesture when the only LDC member was lightly populated Mongolia. By 1972, the year Cuba joined, Soviet rhetorical support for leveling had grown feebler. In that year, with Brezhnev firmly in power, the doctrine of "full Communism" was off the menu, and Cuba's admission did not represent a firm CEMA promise to raise its economy rapidly to East European levels. (However, changes in the world prices of oil and sugar soon translated themselves into increased economic aid, as the USSR's trade subsidies for these commodities ballooned.) Similarly, at Vietnam's admission in 1978 the Soviet and East Europeans made no commitment to rapid leveling.

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Although the term leveling has virtually disappeared from Soviet speeches and articles, admitting LDCs to CEMA would still be risky for the USSR. Newcomers would quickly draw attention to the increases in Soviet aid to Mongolia, Cuba, and Vietnam after their admission. By the mid-1970s, as declining economic growth strained the USSR's limited capacity to provide aid, some Soviet specialists questioned the cost of supporting existing client states and acquiring more.* As it became clear that Moscow could not help poorer socialist states pull even with Eastern Europe economically, Soviet specialists began to distinguish between members of the "socialist Commonwealth," such as Cuba and Vietnam, and socialist-oriented states with observer status, such

*See, for example, Elizabeth Valkenier, The Soviet Union and the Third World: and Economic Bind. New York: Praeger, 1983, pp. 117-122.

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as Angola and Ethiopia. In 1981 Brezhnev described the situation in the Third World as "complicated," and at the June 1983 Central Committee plenum, Andropov added to the new sense of realism by stating:

It is one thing to proclaim socialism as one's goal and another thing to build it. . . . Socialist countries . . . contribute, to the extent of our ability, to (LDCs') economic development. . . . But, on the whole, their economic development . . . can be, of course, only the result of the work of the peoples and a correct policy of their leadership.

In his September 1984 address to the UN General Assembly, then Foreign Minister Gromyko repeated the warning that Moscow would render aid only "to the extent of its capabilities." [REDACTED]

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APPENDIX 3**LDCs: A Peripheral Concern for CEMA**

Extending economic aid to the Third World, even to LDCs aligned with the USSR, is subsidiary to CEMA's central purpose. The amount of energy its European members spend on the economic problems of Vietnam, Cuba, and Mongolia (let alone the observers) is minute compared to that spent on issues of concern to themselves--the specialization of their industrial sectors and the settling of their trade accounts. CEMA's role in relation to LDCs appears similar to that of OECD's Development Assistance Committee, which compiles and analyzes foreign aid information submitted by OECD members. In CEMA this is done by the Department for Coordinating Economic and Technical Aid to Developing Countries, a subsidiary of the Secretariat; according to our review of open-source documents, it does not appear to establish multilateral aid projects or coordinate bilateral projects from the socialist Bloc to prevent overlap. An LDC's admission to CEMA does not formally obligate either the Soviets or the East Europeans to send aid to the new member. [redacted]

CEMA's main financial activities have virtually nothing to do with aiding the Third World. Its International Investment Bank (IIB) provides funds to projects, primarily in the USSR and Eastern Europe, that promote intersectoral specialization, and its International Bank for Economic Cooperation (IBEC) acts as a clearing house for soft currency (in "transferable rubles" for example) trade accounts among the East Europeans and the Soviets. Both banks have also raised hard currency to lend to CEMA countries, but their emphasis is decidedly on the developed countries rather than on the LDCs, members or nonmembers. [redacted]

In 1973 the European CEMA nations signed an agreement with the IIB to establish a fund to "encourage the development of the national economies of the developing countries." The fund is supposed to advance credits for periods up to 15 years to industrial and agricultural enterprises. A 1974 CEMA publication revealed that the fund--to the extent it operates--virtually limits itself to disbursements that the LDCs can use only to buy goods from CEMA countries. The publication admits that of the fund's resources (supposedly worth the equivalent of 1 billion transferable rubles) only 5 percent is available in the form of convertible currency; the rest is in transferable rubles. Observation of the IIB's activities fails to show that any country (except perhaps Nicaragua) has actually drawn on the fund, and it is not mentioned in a 1979 review of CEMA activities that included a lengthy discussion of cooperation with the Third World. [redacted]

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Nonetheless, the USSR has obtained a few burden-sharing commitments. Bulgaria has agreed to aid Vietnam and Cuba, and State Department sources state that CEMA's other developed members agreed in mid-1984 to increase their purchases of Cuban citrus products and nickel over the next five years. According to the US Embassy in Havana, Vice President Rodriguez has said that Cuba's CEMA partners agreed to reschedule the country's debt, postponing payment of principle from 1986 to 1991; this probably was a result of Soviet prodding.

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APPENDIX 4

Recent Soviet Pressure on Eastern
Europe To Aid CEMA's LDC Members

After the CEMA summit in June 1984, the USSR stepped up its longstanding but low-key efforts to persuade Eastern Europe to share the burden of supporting the LDC members. This was in part an attempt to reduce its own aid burden. Some East European economies are growing more slowly than the Soviet Union's, but Moscow probably points out that several of the countries have higher per capita income and consumption levels than the USSR and therefore should raise their contributions. Results have been mixed. [REDACTED]

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In a 1982 article, Yuri Novopashin, an official at the Institute of Economics of the World Socialist System, argued for greater coordination by Communist states in their aid policies, and a Krasnaya Zvezda article in November 1984 stated that the CEMA countries considered it their duty to help Vietnam, Cuba, and Mongolia to develop their agricultural sectors. Such articles probably are hints from Moscow that Eastern Europe should take up more of the slack. [REDACTED]

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We believe the Soviets tried to persuade the East European delegates at the June 1984 CEMA summit to accept a more direct commitment to accelerate the three LDCs' economic development. The final communique on economic matters noted vaguely that one of CEMA's most important tasks is to raise those countries' economies--but failed to elaborate on how to do so. Nonetheless, various US embassy reports suggest that the Kremlin has cited this commitment in its effort to increase the East Europeans' aid to the three poorer members and reduce its own burden. [REDACTED]

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Lukewarm seems to be the word for the East European response. According to the US Embassy in Prague, Czechoslovak Prime Minister Strougal admitted in a speech at the CEMA ministerial meeting in October 1984 in Havana that "a lot must still be done in the negotiations with non-European CEMA states, where credit aid plays an important role in mutual relations." His further remark that "we would like to continue our aid to Cuba, Mongolia, and Vietnam" was probably much less than the Soviets wanted. As for Nicaragua, a Hungarian official has told the US Embassy in Budapest that Eastern Europe cannot afford to keep the Sandinistas afloat--and even if it could, it does not wish to do so, given the distance and circumstances involved. When Nicaraguan President Ortega visited Budapest in May 1985 in search of aid, the Hungarian news service--noting that "Hungary, commensurate with its resources, supports the Nicaraguan people"--emphasized political solidarity, in the United Nations and elsewhere, rather than economic aid. [REDACTED]

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APPENDIX 5

Methodological Note

The definition of economic aid used in this paper is considerably broader than that normally used to calculate Western economic assistance. OECD "official development assistance" includes only grants, loans with a minimum 25-percent grant element (based on interest rates, length of repayment, and grace period), and "technical cooperation" (that is, grants for training LDC nationals at home or abroad). The CIA has defined Soviet economic aid to client states to include not only those conventional forms of aid but also price subsidies on exports and imports, direct grants, and credits on concessionary terms for trade and development.

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The USSR's price subsidies to Eastern Europe climbed dramatically during the 1970s and have fallen in recent years just as dramatically. In the early 1970s the USSR sought to cushion the impact of large price increases on the planned economies of the Soviet Bloc by agreeing to base the prices of primary products traded within CEMA on a moving average of world market prices. For petroleum, for example, the CEMA countries agreed to use a five-year moving average of world prices, starting in 1975. With world oil prices trending downward over the past few years, intra-CEMA oil prices have caught up with the world prices and the annual subsidy has all but disappeared. Moscow also has provided price subsidies to CEMA's less developed members. A large part of the Soviets' price subsidy to Cuba has been for purchases of sugar, for which in many years they pay considerably more than the world market price.

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The direct grants that Moscow has furnished to Communist countries have been for both economic and military purchases. We believe that Soviet military aid to Cuba and Vietnam, for example, is on a grant basis. The USSR provides credits--often on highly concessionary terms--to both Communist and non-Communist countries to finance economic development, trade, and military purchases. It is difficult to measure the concessionary element in Soviet credits, but their cost to the USSR can probably be most closely approximated (in the case of Moscow's bilateral clearing account trade partners) by the Soviet current account surplus with these countries.

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In this paper, Soviet aid flows to CEMA's three LDC members and to North Korea and Laos are defined to include, where applicable, our estimates of trade and development aid, technical services, subsidies for oil and other commodities, and credits on concessional terms. East European aid flows to North Korea, Mongolia, and Cuba are estimated from annual trade surpluses with those LDCs. This approximation probably is slightly less than the actual total because it omits the trade surpluses of East

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Germany, which does not disaggregate exports and imports in its published trade statistics.

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